

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

NOTICE OF ADJUSTMENT OF)	
RATES OF DELTA NATURAL)	CASE NO. 8528
GAS COMPANY, INC.)	

O R D E R

PROCEDURAL BACKGROUND

On June 18, 1982, Delta Natural Gas Company, Inc., ("Delta") filed its notice with this Commission seeking approval of an increase in rates charged for natural gas service rendered on and after July 8, 1982. The Commission suspended the proposed rates and charges for a period of 5 months on and after July 8, 1982. The proposed rates would produce an increase in gross annual revenues of approximately \$2,198,172 or 8.52 percent above Delta's test period revenues. At the hearing on October 19, 1982, Delta amended its requested increase to \$2,188,760^{1/} to reflect additional changes to its test period operations. The Commission asks Delta and any other applicant which chooses to amend its case substantially, to provide, prior to the hearing for cross-examination, revised copies of its exhibits and testimony to the Commission and all other

parties before the hearing so that all may participate meaningfully in the proceeding. In this Order the Commission has allowed additional revenues of \$1,086,086.

Public hearings were held in this matter on October 19 and 20, 1982, and November 15, 1982, in the Commission's offices in Frankfort, Kentucky. An additional hearing was held on November 19, 1982, in the State National Bank Building in Richmond, Kentucky. The Consumer Protection Division of the Attorney General's Office ("AG") and the Cities of Richmond and Berea, Kentucky, were permitted to intervene in this matter. Further, the Commission allowed Mr. Charles Buchanan, Mayor of Barbourville, Kentucky; Mr. Jack Farmer of Berea, Kentucky; Mr. Jim Wallace, Superintendent of Schools, Berea Independent School District; and Mr. Louis Martin, Superintendent of Corbin City Schools, Corbin, Kentucky, to make statements in the record for their respective communities.

ANALYSIS AND DETERMINATION

Test Period

Delta proposed and the Commission has accepted the 12-month period ending March 31, 1982, as the test period in this case.

Consolidation

Delta has proposed to file, and the Commission has allowed, consolidated financial statements including the

operations of its wholly-owned subsidiary, Laurel Valley Transmission Company ("Laurel Valley"). This consolidation eliminates all intercompany transactions, provides for Delta to recover Laurel Valley's expenses, and permits Delta the opportunity to earn the allowed return on its investment in Laurel Valley's assets.

Valuation Methods

Net Investment

Delta proposed a consolidated rate base of \$18,805,426^{2/} which it subsequently revised to \$18,708,487.^{3/} The Commission has accepted the revised rate base valuation with the following exceptions:

Committed Building Construction Expenditures

At March 31, 1982, Delta had construction work in progress of \$492,323^{4/} included in its rate base calculations. Delta proposed to include an additional \$1,207,400^{5/} to be used to upgrade its existing facilities. Delta did not quantify any reduction in operating expenses resulting from improved efficiency or decreased gas line loss. The Commission concludes that the adjustment for ongoing additions and improvements to plant without related adjustments to the operating statement may have the effect of distorting the test period level of earnings and has denied the adjustment.

Working Capital

Delta proposed an allowance for cash working capital

requirements of \$661,891,^{6/} which it later revised to \$675,105.^{7/} The Commission has reduced the amount by \$25,465, to \$649,640, in order to reflect the level of operating expenses found reasonable herein.

Acquisition Adjustment

The Commission has reduced Delta's proposed rate base by \$132,560^{8/} to reflect the net book value of its acquisition adjustment. It is the Commission's opinion that it is unfair to require the ratepayers to provide additional monies on utility plant simply because it has been sold at a cost above book value. The Commission considers the net original cost of plant devoted to public service to be the appropriate valuation for a determination of revenue requirements.

Accumulated Depreciation

Delta proposed an adjusted end of period level for accumulated depreciation of \$8,350,518^{9/} which it later revised to \$8,378,900.^{10/} The Commission has reduced that amount by \$45,000 to \$8,333,900 in order to reflect the exclusion of certain out-of-period adjustments to rate base.

Acquisition Cost of Peoples Gas

In Delta's previous rate case, Case No. 8256, the Commission ordered Delta to amortize \$109,295^{11/} of expenses associated with Delta's acquisition of Peoples Gas Company over a 5-year period. Delta in this proceeding has proposed to include the unamortized portion of this amount in its net

investment rate base. The Commission agrees with Delta that the unamortized portion of this expense is a material investment in utility operations for Delta and has allowed the unamortized portion of this expense to be included in Delta's net investment rate base.

Accumulated Deferred Taxes

The Commission has reduced Delta's accumulated deferred taxes by \$1,970 from \$735,076^{12/} to \$733,106. This adjustment is made to recognize the Commission's amortization of excess deferred taxes addressed in a later part of this Order and is consistent with the adjustment the Commission has made to bring depreciation expense and depreciation reserve to an end-of-period level.

Therefore, the Commission has determined Delta's consolidated net investment rate base at March 31, 1982, to be as follows:

Consolidated Property	\$24,994,825
Less: Reserve for Depreciation	<u>8,333,900</u>
Net Plant	\$16,660,925
Add:	
Working Capital	649,640
Prepayments	95,851
Materials and Supplies	558,685
Unamortized Early Retirement - Propane Plant	5,700
Gas in Storage	155,665
Acquisition of Peoples Gas Company	<u>87,436</u>
Subtotal	\$ 1,552,977

Less:

Accumulated Provision for Deferred Income Taxes	733,106
Accumulated Provision for Investment Tax Credit - Pre 1971	23,950
Advances for Construction	36,262
Net Book Value of Non- Utility Property	<u>30,552</u>

Subtotal \$ 823,870

Net Investment Rate Base \$17,390,032

Capital

At March 31, 1982, Delta had capital of \$17,933,037, including accumulated job development investment tax credits of \$692,350.^{13/} Delta proposed to increase this amount by \$1,525,635^{14/} to reflect what it considered to be a more normal level for short-term debt. The Commission is of the opinion that this is an arbitrary adjustment not supported by any evidence and has rejected it.

The Commission has further reduced Delta's capital by \$30,552^{15/} and \$132,560^{16/} to exclude capital supporting Delta's non utility property and net acquisition adjustment, respectively.

Therefore, the Commission finds that Delta's adjusted capital base at March 31, 1982, is \$17,769,925.

In July of 1982, Delta sold common stock of \$4,000,000^{17/} to refinance short-term debt. The capital structure following this sale, as set out below, is, in the Commission's opinion, a safe and prudent capital structure in that it

should enable Delta to secure future capital requirements at reasonable cost rates. Therefore, the Commission finds Delta's capital structure to be as follows:

	<u>Amount</u>	<u>%</u>
Common Equity	\$ 6,051,234	34.05
Preferred Stock	1,152,588	6.49
Long-Term Debt	9,334,426	52.53
Short-Term Debt	<u>1,231,677</u>	<u>6.93</u>
Total	\$ 17,769,925	100.00

The above treatment in further calculation results in assigning the overall cost of capital to Delta's accumulated job development investment tax credits as required by Section 46(f) of the Internal Revenue Code.

REVENUES AND EXPENSES

Delta proposed several pro forma adjustments to actual operating revenues and expenses for the 12 months ended March 31, 1982.^{18/} The Commission finds these adjustments to be known and reasonable and has accepted them for rate-making purposes with the following exceptions:

Gas Sales and Purchased Gas Expense

Delta proposed to normalize test year gas sales revenue and purchased gas expense with adjustments to eliminate the effects of colder than normal weather conditions. The Commission agrees with Delta's normalization method with the following exception:

To Delta's normalization of test year purchases

adjusted for temperature and wholesale supplier rates, the Commission has made the following adjustments:

- A. The Commission has calculated Delta's weather normalization adjustment on the basis of the 30-year period ending in 1980. Using Delta's methodology the adjustment has the effect of increasing Delta's normalized revenues by \$155,322.^{19/}
- B. During the test period Delta experienced gas line loss of approximately 6 percent.^{20/} It is the Commission's policy that line loss for gas utilities be limited to 5 percent; thus, the Commission has used the adjusted level of gas purchases of 5,606,773 Mcf^{21/} in determining the normalized expense for purchased gas. Allowing for the change in degree days discussed above, the cumulative effect of this adjustment is to decrease Delta's normalized expense for purchased gas by \$71,446.^{22/}

Transportation and Displacement Revenues

In its adjustments to normalized test period operations, Delta proposed to eliminate revenues derived from gas sales to Columbia Gas Transmission Corporation ("Columbia"). The contract under which these revenues were derived expired in May of 1982, and to date no additional revenue has been earned by Delta through the sale of gas to Columbia.^{23/} Therefore, the Commission will allow the deduction of these revenues for rate-making purposes since they are non-recurring.

Depreciation Expense

Delta proposed a pro forma adjustment to depreciation expense of \$169,382.^{24/} Included in this amount is \$45,000

related to committed capital expenditures of \$1,207,400 for system improvements outside the test period which the Commission has disallowed. Therefore, the Commission has reduced Delta's pro forma depreciation expense by \$45,000. The Commission has also reduced depreciation expense by \$16,800^{25/} to adjust for the plant acquisition adjustment previously disallowed and by \$2,280^{26/} to exclude that portion of depreciation expense associated with Delta's non utility property. The total effect of these adjustments is to reduce Delta's pro forma depreciation expense by \$64,080.

Provision for Uncollectible Revenues

Delta proposed an adjusted level for uncollectible revenues of \$215,000, an increase of \$127,000 over test period levels. This adjustment is based on the percentage of bad debt expense of .767 percent determined by an audit of Delta's operations for the 12 months ended June 30, 1982, applied to Delta's proposed level of operating revenues.^{27/} The Commission is of the opinion that Delta's percentage of bad debt expense is reasonable given the economic conditions of the areas in which Delta operates and in comparison with the recent level of bad debt expense experienced by Union Light, Heat and Power Company of 1.2 percent and Louisville Gas and Electric Company of .63 percent. The Commission, however, using Delta's methodology, has reduced Delta's pro forma bad debt expense by \$6,600 to \$208,400 to reflect the increase in revenues allowed herein.

Institutional Advertising

The Commission has disallowed \$8,511^{28/} of expenses for institutional advertising incurred during the test period, as required by 807 KAR 5:016, Section 4, which states:

Advertising Disallowed. (1) Advertising expenditures for political, promotional, and institutional advertising by electric or gas utilities shall not be considered as producing a material benefit to the ratepayers and, as such, those expenditures are expressly disallowed for rate-making purposes.

Delta and the Issue of Officer Compensation

No other issue in this proceeding received as much attention as did that of executive compensation. Nor is this issue new to the Commission, which in its final Order of December 1, 1981, in Case No. 8256, at page 16, stated:

. . . the Commission serves notice that in future rate proceedings it expects Delta to quantify the cost savings accruing to its customers as a result of the current high level of administrative and general salaries and employee benefits.

Moreover, although in the current case the issue of executive compensation was addressed in the hearings of October 19 and 20, at the conclusion of the latter hearing Chairman Murrell stated that she had "not seen the quality of testimony on the issue on the number of officers and the salary of the officers" that she believed the issue warranted. On

October 21 the Commission ordered the parties to file any additional written comments or testimony on the issue on or before November 9, and on November 15 held a hearing on this issue.

The Commission reminds Delta that it bears sole responsibility to demonstrate the reasonableness of the number of officers employed by Delta and their compensation if the total costs thereof are to be borne by the ratepayers. The Commission believes Delta has failed to meet that requirement.

The Commission believes there is a preponderance of evidence in this proceeding which compels the conclusion that the number of officers employed by Delta and their compensation--in the aggregate and in certain instances individually--are excessive and represent a cost which should not be borne entirely by Delta's customers. That evidence includes the following:

- Data in the study EXECUTIVE COMPENSATION IN PUBLIC UTILITIES 1981, provided by Delta, which show median salaries for the top two executive officers for the utilities studied with annual revenues between \$25-49 million to be \$70,000 and \$39,300, respectively,^{29/} and for gas utilities to be \$75-79,000 and \$34-38,000, respectively,^{30/} whereas the salaries which Delta--with revenues at the very bottom of the range--pays its two top executive officers are \$90,750 and \$54,400, respectively.^{31/}

- Testimony by Delta witness Victor Desposito that for Delta's size he would have expected eight officers,^{32/} whereas Delta's annual report for fiscal 1982 lists thirteen officers, and its testimony shows at least nine.

- Duplication of certain titles among officers--for instance two "controllers," and both a vice president "administration" and an assistant vice president "administration."^{33/}

- Exhibits filed by Delta witness Desposito which show duplication of functional responsibilities assigned the executive vice president, on the one hand, and the vice president-administration and the vice president-personnel, on the other.^{34/}

- Considerable testimony which shows that Delta executive salaries are extremely high for the Richmond, Barboursville and Berea areas, three principal cities served by Delta.^{35/}

- The average 21-year tenure among Delta executive officers suggests that Delta enjoys a substantial competitive advantage among employers in its geographical area as well as in the regulated gas industry.^{36/}

- Even Mr. Harrison Peet, President of Delta, indicated that the corporate structure exceeded the current scope of Delta's operations, drawing a conclusion that the structure was in place to serve a system expanded as much as 300 percent.^{37/}

The charge given a regulatory agency like this Commission takes two forms. On the one hand there are the specific statutory provisions, such as are found in KRS Chapter 278. On the other hand, and no less important for being cited infrequently, is the following simple admonition:

. . . the single most widely accepted rule for the governance of the regulated industries is regulate them in such a way as to produce the same results as would be produced by effective competition, if it were feasible.^{38/}

Clearly, in the presence of "effective competition," though excessive executive compensation might exist temporarily, it could not continue indefinitely. This Commission is designed to be a surrogate for that effective competition, and though it is but an imperfect surrogate, nevertheless it takes very seriously its role in that regard, and thus its obligation to see that Delta's customers do not bear the consequences of improvident decisions by Delta's senior management.

The Commission notes that in selecting George Stigler to receive the 1982 Nobel Memorial Prize in Economic Science, the Royal Swedish Academy of Sciences cited his "seminal studies of industrial structures, functioning of markets and the causes and effects of public regulations,"^{39/} including regulation on the part of state entities such as the Commission. As a result of his studies, it is Stigler's conclusion that regulation "is designed and operated primarily for its [the regulated firm's or industry's] benefit."^{40/}

The present case has that color to it. Surely any firm would desire an arrangement in which it is well-insulated from the forces of competition; is thus able to compensate a select group of employees (or even all employees) with little or no regard for what would be the competition-determined level of compensation for them; and finally is able to have the arrangement ratified by the official seal--the rate Order--of the very public agency created to protect captive consumers from such abuse. This Commission does not intend to participate in such an arrangement.

Therefore, based on the above findings the Commission has for rate-making purposes frozen the level of executive compensation allowed herein to that which was allowed in Delta's previous rate case, Case No. 8256, of \$470,592,^{41/} which includes an allowance for Delta's level of pensions and benefits. The Commission has further reduced this level by \$52,288, the average compensation paid by Delta to its nine executive officers, in order to reflect the eight officers Delta's own witness, Mr. Desposito, would have "expected" to see in a company of Delta's size.^{42/} The Commission has also reduced Delta's operating expenses by an additional \$5,673, to eliminate that portion of Delta's vehicle operation and maintenance costs attributable to personal use of company vehicles,^{43/} which the Commission finds is an unreasonable cost for Delta's customers to pay.

The cumulative effect of these adjustments is to reduce Delta's pro forma operation and maintenance expenses by \$189,612.^{44/}

Accelerated Recovery of Excess Tax Deferrals

The federal tax laws require regulatory commissions to normalize, for rate-making purposes, the income tax effects of differences between book and tax depreciation arising from use of accelerated depreciation for tax purposes. Thus, in the initial years of an asset's life the book tax expense for rate-making purposes is greater than the actual federal tax liability. In the later years the book tax expense is less than the actual tax liability.

The theoretical argument for providing deferred taxes is that ratepayers should be required to pay a normalized level of income tax expense through rates. The normalized level is based upon the tax rate in effect at the time the deferral occurs and assumes that the tax rate will remain constant. This has not in fact occurred. The Revenue Act of 1978, effective January 1, 1979, reduced the corporate tax rate of 48 percent to 46 percent. Thus, the differences between the amount deferred at rates greater than the current 46 percent rate can be characterized as excess deferred taxes.

Based on the foregoing analysis, the Commission concludes that excess deferred taxes of Delta of \$9,848^{45/} that resulted from the change in tax rates should be amortized

over a 5-year period for rate-making purposes to better insure that the surplus is credited to the ratepayers who originally paid the taxes at 48 percent. Therefore, the Commission will increase Delta's operating income by \$1,970. The Commission has made a corollary adjustment to reduce Delta's accumulated deferred taxes to recognize 1 year's amortization of the excess deferred taxes.

The Commission notes that if the tax rate is increased in the future, equity will demand that any deficiency in the deferred tax reserve will have to be provided through rates at that time.

Interest Expense

During the test period, Delta incurred interest expense of \$1,023,993, including the amortization of debt expense of \$17,200. Based on its proposed capital cost and capital structure, Delta sought to increase interest expense by \$603,284, for total proposed normalized interest of \$1,627,277.^{46/}

Based on the Commission's accepted level of debt in this Order and the approved interest rates below, the Commission has determined that the amount of interest expense provided for herein is \$1,252,210 or a reduction to Delta's normalized expense of \$375,067.^{47/}

Tax Expense

The Commission, using the cumulative tax rate of .4924, has determined that the Commission's adjustments

discussed above will have the effect of increasing Delta's pro forma income tax expense by \$430,341, from \$70,785 to \$501,126.

Therefore, the Commission finds that Delta's adjusted test period operations are as follows:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$25,798,019	\$286,690	\$26,084,709
Operating Expenses	<u>24,221,042</u>	<u>156,406</u>	<u>24,377,448</u>
Operating Income	\$ 1,576,977	\$130,284	\$ 1,707,261

Cost of Capital

Mr. Glenn Jennings, Treasurer of Delta, proposed to use the actual embedded cost of 9.31 percent for long-term debt.^{48/} This cost rate was based on interest rates currently in effect and March 31, 1982, debt levels.^{49/} Mr. Jennings adjusted Delta's end-of-test period capital structure to reflect an additional \$4,000,000 of long-term debt, issued in July of 1982. This additional debt was included at the test year average prime rate of 18.13 percent because that was one method of pricing the interest cost of such debt.^{50/} At the hearing, Mr. Jennings updated the average prime rate to 16.43 percent.^{51/} Mr. Jennings reduced Delta's end-of-test year short-term debt by \$4,000,000 to reflect the repayment of short-term notes with funds from the sale of long-term debt.^{52/} Delta proposed to use the average prime rate as the cost of short-term debt because its short-term

borrowings were essentially at the prime rate.^{53/} Mr. Jennings also proposed to use the end-of-test year embedded cost of 10 percent for preferred stock.^{54/}

As stated in its brief, the AG disagreed with the use of a 12-month average prime rate as the cost rate for Delta's short-term debt.^{55/} The AG argued that the authorized interest rate should reflect the relatively lower current prime rate. It recommended a rate of no more than 14 percent on Delta's July 7, 1982, debt issuance and its short-term borrowings.^{56/}

The Commission is of the opinion that the \$4,000,000 adjustment to the end-of-test year capital structure is reasonable because it reflects the actual issuance of new long-term debt after the test year. The Commission is also of the opinion that the embedded cost rates for long-term debt and preferred stock are fair, just and reasonable. The Commission, in determining a fair cost rate for short-term debt, has reviewed current and recent money market conditions as well as Delta's financial strengths. The average prime rate for the 12 months ended October 31, 1982, was 15.6 percent.^{57/} The prime rate for December 7, 1982, was 11.5 percent, as quoted in the Wall Street Journal. The Commission is aware of the recent declines in interest rates in general and the prime rate in particular. Therefore, after giving due consideration to the testimony and recent market rates, the Commission is of the opinion that a cost rate of 14 percent

should be applied to the new \$4,000,000 bond issue and the short-term debt portion of Delta's capital structure. These cost rates for debt and preferred equity are fair, just and reasonable and will be adopted for the purpose of determining the overall cost of capital in this case.

Mr. Jennings proposed a minimum return on equity of 18 percent.^{58/} In his testimony, Mr. Jennings performed a risk premium analysis to demonstrate the reasonableness of Delta's proposed return on equity.^{59/} At the hearing, he updated the returns on the various instruments he used in the risk premium analysis.^{60/} This increased the risk premium, included in the proposed 18 percent return on equity, by 3 to 4 percentage points over what was listed in Mr. Jennings' prefiled testimony.^{61/} However, Mr. Jennings did not lower the requested return on equity to adjust for the decrease in the returns on the various financial instruments used in his risk premium analysis. No other formal analyses, such as discounted cash flow or comparable earnings, were used to determine the required return on equity.

Having given due consideration to current conditions in the financial markets, the Commission is of the opinion that a range of returns on equity of 14.5 percent to 15.5 percent is fair, just and reasonable. The Commission has determined that a return on equity in this range would not only allow Delta to attract capital at reasonable costs to insure continued service and provide for necessary expansion

to meet future requirements, but also would provide for the lowest possible cost to the ratepayer. Within this range of returns, the Commission finds that a return on common equity of 15 percent should allow Delta to attain the above objectives.

Rate of Return Summary

Applying the cost rates found to be reasonable to the capital structure allowed herein produces a weighted cost of capital of approximately 12.71 percent. The Commission finds that the resulting rate of return on net investment of approximately 12.99 percent is fair, just and reasonable. This return will allow Delta to pay its operating expenses, service its debt and provide a reasonable surplus for equity growth.

REVENUE REQUIREMENTS

The required net operating income, based on the rate of return on net investment of 12.99 percent found fair, just and reasonable, is approximately \$2,258,558.^{62/} To achieve this level of operating income, Delta is entitled to increase its rates and charges to produce additional revenues on an annual basis of \$1,086,086 determined as follows:

Calculation of Increase

Adjusted Net Operating Income	\$1,707,261
Required Net Operating Income	<u>2,258,558</u>
Deficiency	551,297
Retention Factor (.5076) ^{63/}	\$1,086,086

REVENUE ALLOCATION AND RATE DESIGN

Delta proposed to allocate the increase to each rate step by an equal Mcf adder and to increase the customer charge from \$2.75 to \$4. Delta proposed no changes to its current rate design, but Delta did request a new \$5 bad debt charge.

The Commission is of the opinion that the method to allocate the revenue increase proposed by Delta is fair, just and reasonable, and a bad debt charge of \$5 should be instituted by Delta. Delta offered little information to support a 45 percent increase in the customer charge; therefore, the Commission is of the opinion that an increase in the customer charge equal to the percentage of the overall increase of 4.4 percent granted in this case is fair, just and reasonable.

FINDINGS AND ORDER

The Commission, after consideration of the evidence of record and being advised, finds that:

1. The rates and charges proposed by Delta would produce revenues in excess of the revenues found reasonable herein, and should be denied upon application of KRS 278.030.
2. The rates and charges in Appendix A are the fair, just and reasonable rates for Delta to charge its customers in rendering gas service.

IT IS THEREFORE ORDERED that the proposed rates and


charges in Delta's notice of June 18, 1982, be and they hereby are denied.

IT IS FURTHER ORDERED that Delta be and it hereby is authorized to place into effect the rates and charges in Appendix A for service rendered on and after December 8, 1982.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, Delta shall file its tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 14th day of December, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

Footnotes

1. Revised Jennings Exhibit B.
2. Jennings Exhibit A.
3. Revised Jennings Exhibit A.
4. Jennings Prefiled Testimony, page 11.
5. Ibid.
6. Jennings Exhibit A-1.
7. Revised Jennings Exhibit A-1.
8. Response to staff request no. 1, item 5, page 1.
 $\$411,160 - \$278,600 = \$132,560.$
9. Jennings Exhibit A.
10. Revised Jennings Exhibit A.
11. Final Order, PSC Case No. 8256, page 12.
12. Revised Jennings Exhibit A.
13. Response to staff request no. 1, item 5, page 2 of 3.
14. Jennings Exhibit B-2.
15. Revised Jennings Exhibit A.
16. Response to staff request no. 1, item 5, page 1 of 3,
column 6 - column 7.
17. Jennings Exhibit B-1.
18. Revised Jennings Exhibit C.
19. Response to staff request no. 2, item 17.
20. Response to staff request no. 1, item 12, page 5.
 $\text{Actual Sales of } 5,343,076 \text{ Mcf} \div \text{Actual Purchases of } 5,682,474 \text{ Mcf} = 94.02\%.$
21. $\text{Adjusted Sales of } 5,326,076 \text{ Mcf} \div .95 = 5,606,773 \text{ Mcf}.$
22. $5,606,773 \text{ Mcf} \times \text{Average Gas Cost of } \$3.1107/\text{Mcf} =$
 $\$17,440,989 - \text{Delta Pro Forma Gas Cost of } \$17,512,435 =$
 $(\$71,446).$

23. Transcript of Evidence, October 19, 1982, page 56.
24. Revised Jennings Exhibit C-2, page 1 of 2.
25. Response to staff request no. 1, item 5, page 1 of 3, column 7.
26. Net Book Value March 31, 1981 - Net Book Value March 31, 1982.
27. Transcript of Evidence, October 20, 1982, page 10.
28. Response to staff request no. 1, item 21a.
29. EXECUTIVE COMPENSATION IN PUBLIC UTILITIES 1981, page 14.
30. Ibid., page 45.
31. Response to staff request no. 2, item 3.
32. Prefiled Testimony of Victor R. Desposito, Jr., page 4.
33. Delta's 1981 stockholders Annual Report.
34. Prefiled Testimony of Victor R. Desposito, Jr., Exhibit 2, pages 1, 5 and 7 of 8.
35. Brief for the Attorney General, page 27. Brief for Richmond and Berea, pages 3-9.
36. Brief for Delta, page 21.
37. Transcript of Evidence, October 19, 1982, page 89.
38. Alfred E. Kahn, THE ECONOMICS OF REGULATION, New York, 1970, volume 1, page 17.
39. THE NEW YORK TIMES, October 21, 1982.
40. THE NEW YORK TIMES, October 24, 1982.
41. Response to staff request no. 2, item 3, 12/31/80, (367,650 x 1.28).
42. Prefiled Testimony of Victor R. Desposito, Jr., page 4.
43. Response to hearing request, Exhibit A.
44. Calculation: $\$435,650 \times 1.08 \times 1.28 = \$602,243$ pro forma level of executive compensation - $\$418,304 = 183,939 + 5,673 = \$189,612$.
45. Brief for Delta, page 14.

46. Revised Jennings Exhibit C.
47. Adjusted Capital of \$17,769,925 x Weighted Cost of Debt of .0695 = \$1,235,010 + \$17,200 = \$1,252,210.
48. Jennings testimony, page 18.
49. Ibid.
50. Ibid., page 17.
51. Transcript of Evidence, October 19, 1982, pages 111-112.
52. Jennings Testimony, page 14.
53. Jennings Exhibit B.
54. Jennings Testimony, page 17.
55. Brief for the Attorney General, pages 12-14.
56. Ibid., page 14.
57. Federal Reserve Statistical Release.
58. Jennings Testimony, page 19.
59. Ibid., page 26.
60. Transcript of Evidence, October 19, 1982, pages 112-113.
61. Jennings Testimony, page 18.
62. $\$2,258,558 \div \$17,390,032 = 12.99\%$.
63. $100\% - \text{Cumulative Tax Rate of } 49.24\% = 50.76\%$.

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8528 DATED DECEMBER 14, 1982.

The following rates and charges are prescribed for the customers in the areas served by Delta Natural Gas Company, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATE SHCEDULE G - GENERAL SERVICE

RATES:

General Service--

Monthly Customer Charge - \$2.90 per delivery point per month.

1 - 5,000 Mcf	\$5.2283
5,001 - 10,000 Mcf	4.9783
Over - 10,000 Mcf	4.7283

Interruptible--

1 - 5,000 Mcf	\$4.9783
5,001 - 10,000 Mcf	4.7283
Over - 10,000 Mcf	4.4783

17. SPECIAL CHARGES:

The following charges shall be applied under the following conditions:

- (3) Bad Check Charge: The Company may charge and collect a fee of \$5.00 to cover the cost of handling an unsecured check, where a customer tenders in payment of an account a check which upon deposit by the Company is returned as unpaid by the bank for any reason.

PURCHASED GAS ADJUSTMENT

Delta Natural Gas Company

Applicable to all rate schedules

The base rate for purchased gas for the future application
of this Purchased Gas Adjustment Clause is:

Supplier	<u>Rate/Mcf or DTH</u>
Columbia Gas Transmission Corporation	
Rate Schedule CDS	
Demand (DTH)	\$3.38
Commodity (DTH)	4.2533
Rate Schedule SGS (DTH)	4.4755
Columbia LNG Corporation	5.9477*
*Includes Transportation Charge of \$0.3377	
Tennessee Gas Pipeline Company	\$3.0952
Gas Rate (DTH)	0.7332
Graham-Michaelis Corporation	\$2.00
Flat Lick	\$0.35
Evans	0.96
Wisehoff	1.41
Hall-Martin	0.40
Goff	0.40
Weaver	1.86
Martin Energy Company	1.75
Laurel Valley	3.3455
Wiser Oil Company	2.6355
Al J. Keyser	1.50
L P Energy	2.00
Storage	0.8479
CN Operating Company	2.00

The average cost of purchased gas, "New Supplier Rate," for
future application of the Adjustment Clause is \$3.3434 per Mcf.